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DEPARTMENT OF AUDITOR-CONTROLLER

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October 3, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley *tm*
Auditor-Controller

SUBJECT: **INVESTIGATION OF ALLEGED IMPROPRIETIES IN CONTRACTING FOR PRIVATE SECURITY GUARD SERVICES – CASE #2005-0578**

On June 21, 2005, the Board requested that the Auditor-Controller (A-C) investigate alleged improprieties by the Office of Public Safety (OPS) in the evaluation and selection of bids for private security guard services contracts. Specifically, Steven T. Schrieken, the former owner of North American Security, Inc. (NAS), alleged that OPS improperly disqualified NAS' bid in retaliation for contesting certain requirements in the original Request for Proposals (RFP), improperly awarded contracts to former Department employees, and failed to screen a competing vendor who was in the process of being debarred by the federal government. Mr. Schrieken also alleged that OPS improperly reduced the amount NAS was paid for security guard services, and did not apply that reduced rate to other vendors.

During our investigation, Mr. Schrieken made additional allegations against OPS, including that contract monitors unfairly cited and fined NAS for minor compliance violations but ignored similar infractions by other contractors. This report details our findings and recommendations with respect to the RFP and evaluation processes, and alleged discrepancies in assessments for contract compliance issues. Allegations regarding improper reductions in contract rates, which are not related to the pending contract, are still being investigated and will be reported at a later date.

Summary and Conclusions

We could not find any evidence to support Mr. Schrieken's allegations of misconduct by OPS. We believe the Department was correct in excluding NAS' proposal from the second phase of the evaluation process because they did not provide audited financial statements, a reasonable and clearly articulated requirement in the RFP. We also could not find any evidence to support that OPS improperly awarded contracts to former employees, or unfairly cited NAS for contract compliance violations. We did find evidence that one competing bidder was previously sanctioned by the State of New York for hiring improprieties and failed to disclose that information in their bid package. We have forwarded details of that incident to OPS for review.

Overall, we found the RFP process to be consistent with other such proposal processes that have been used throughout the County. OPS obtained input from stakeholders in the RFP development process, and we believe that the resulting minimum mandatory requirements are reasonable. We also found that the process used to evaluate the proposals was generally consistent with the ISD Services Contracting Manual. Specifically, we found that the evaluation criteria were generally relevant, reasonable, and applied in an unbiased and consistent manner to all vendors. The evaluation criteria were also appropriately disclosed to the bidders as required, and vendor concerns/questions appear to have been timely and appropriately addressed by OPS.

We did find significant deficiencies with the evaluation instrument and resulting consensus scoring documents. Specifically, we noted that many criteria on the individual evaluation instruments were never scored, and bidders were awarded partial credit for criteria that should have been rated full- or no-credit. We also identified several cases where language in the evaluation instrument was inconsistent with corresponding RFP requirements. While we do not believe it is necessary to re-bid the RFP, we have recommended and OPS management has agreed to reevaluate and rescore the existing proposals using updated evaluation instruments.

We also recommended that OPS require all committee members to submit their completed evaluation instruments to the evaluation committee facilitator prior to the consensus meeting. This will give the facilitator time to review the evaluation instruments to ensure all criteria are rated, appropriate comments are included to justify other than full-credit scores, bidder and evaluator names, and dates are included, etc. In addition, it would be beneficial if scores are summarized prior to the consensus meeting to allow committee members more time to resolve significant scoring differences. Finally, to preserve an adequate audit trail, individual evaluation instruments and consensus scoring documents should be retained with the original bids for a period not less than the term of the contract.

We reviewed our report with OPS management on September 26, 2005. They generally agreed with our findings and have begun implementing our recommendations. The Department has also begun the process of rescoring the RFP's and expects to finish by mid-October. We thank OPS management and staff for their cooperation and assistance in completing this review.

Please contact me or have your staff call Marion Romeis at (626) 293-1400 if you have questions.

JTM:MR:RC
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Attachment

c: David E. Janssen, Chief Administrative Officer
Violet Varona-Lukens, Executive Officer, Board of Supervisors
Michael J. Henry, Director, Department of Human Resources
Margaret York, Chief, Los Angeles County Police

ATTACHMENT

Office of Public Safety
Investigation of Private Security Guard Services Contracting Improprieties

Background

OPS administers contracts for private security guard services at a number of County buildings, including select facilities of the Departments of Public and Social Services (DPSS), Community and Senior Services (DCSS), and Health Services (DHS). On November 9, 2004, OPS issued RFP #2004 to solicit proposals from qualified companies for armed and unarmed security guard services, under four separate contracts. Winning bidders, selected through a two-phase evaluation process, were to be awarded three-year contracts. The three-year cost of these contracts is estimated to be approximately $40 million, with three possible extensions that would increase the total value of the contracts to more than $70 million.

OPS received eight bids, six of which met the minimum mandatory requirements detailed in the RFP. OPS eliminated the other two bidders during Phase I, including NAS, because they submitted incomplete and/or non-responsive proposals. The remaining six bids were evaluated by a panel of five County employees from various departments and assigned scores on a variety of evaluation criteria, including various objective measures of past performance and total cost. Staff from the A-C's Audit Division also analyzed audited financial statements submitted by each bidder to identify fiscal issues that could prevent them from meeting their contract obligations, and to obtain some assurance that each firm was likely to continue operating as a going concern. The Audit Division's analysis found that six of the eight bidders that submitted audited financial statements were fiscally sound.

Scope

The purpose of our review was twofold: (1) to determine whether the RFP and bid evaluation processes were objective and consistent with County policy; and (2) to investigate Mr. Schrieken's allegations of misconduct by OPS, including the decision to exclude NAS' proposal from the Phase II evaluation process. To determine whether the RFP and bid evaluation processes were consistent with County policy and provided an objective basis for evaluation, staff from the A-C's Office of County Investigations (OCI) reviewed, and in some cases attempted to replicate, the evaluation committee's consensus scoring process and associated rating instruments. OCI staff also consulted with County Counsel and procurement staff from the Internal Services Department (ISD) and recalculated scores awarded by the evaluation team for a sample of individual bids to determine their accuracy.

OCI staff also conducted a 100% review of scoring instruments used by the evaluation panel to determine whether OPS took retaliatory or punitive action against NAS, or engaged in other misconduct in the bid evaluation process. In addition, OCI examined the RFP and associated amendments and reviewed correspondence from bidders to determine whether minimum mandatory requirements were clearly stated, and if questions were appropriately addressed by the Department. Lastly, OCI interviewed

Mr. Schrieken, contract monitors, and OPS managers and staff responsible for various aspects of the RFP and bid evaluation processes.

Findings and Conclusions

RFP Process

Sections 4.1.1 and 4.3 of the ISD Contracting Manual (Manual) specify that an RFP must describe the scope of services required, and disclose both the selection process and evaluation criteria to bidders. In addition, the evaluation process and rating criteria should conform to the RFP service requirements and be designed as objectively as possible to measure the proposals' compliance with the rating criteria. The Manual also recommends a two-stage evaluation process.

OPS' two phase evaluation included the following components:

- Phase I was an evaluation of each proposal to determine whether it included the required documents/information, and whether each bidder met 13 pass/fail criteria in the RFP. Failure to meet Phase I requirements automatically disqualified the bidder from further consideration.

- Phase II consisted of a detailed matrix evaluation to score the contents of each proposal based on how the bidders addressed specific RFP criteria. This evaluation was performed by a committee of five County employees from the Department of Parks and Recreation, DCFS, DMH, DHS and OPS. After completing their individual evaluations, committee members met to compile a final consensus score and discuss any significant disagreements in their respective ratings. These consensus scores were then used to rank the proposals for purposes of awarding funding under these contracts.

Phase I

OPS staff performed an initial review of the eight proposals received before the submission deadline, and none were initially excluded. The A-C then reviewed financial statements submitted by each of the eight bidders and noted that two (American Guard Services, Inc., and NAS) did not submit audited statements for review. OPS subsequently disqualified these bidders from further consideration because they did not comply with the minimum mandatory requirements set forth in the RFP.

Phase II

OCI staff reviewed the evaluation instruments used to rate the six qualifying proposals and noted that a number of criteria were either unscored or included unidentifiable symbols without a legend to interpret their meaning. Some instruments also contained multiple checkmarks and erasures, making it difficult or impossible to interpret the rater's intention. In addition, evaluation instruments did not always include the evaluator's name, the name of the bidder being rated and/or the specific contracts that were being evaluated.

Further, we noted that bidders were awarded partial credit on a number of criteria when the only possible outcomes were full- (100%) or no-credit. In many of these instances, no explanation was provided by the rater for the partial-credit score. In addition, we noted instances where language in the evaluation instrument was either inconsistent with the corresponding RFP requirement or invited confusion/inconsistency by applying a subjective or qualitative measurement of compliance/performance to an inherently quantitative criterion. OPS staff who facilitated the evaluation process told us that some committee members had difficulty defining or interpreting scoring requirements for certain criteria. For example, evaluators were unsure what constituted a "detailed plan". In addition, evaluators indicated that the decision to award more points was based on information or comments only peripherally related to the criterion being rated. As a result, bidders that fully met certain RFP requirements did not always receive full credit.

For example, the Statement of Work required contractors to maintain a Weapons List and make it available to OPS. This criterion should have been rated on whether or not the contractor proposed to maintain a Weapons List and provide it to the Department, with only two possible outcomes – full -or no credit. However, the evaluation instrument also included two partial-credit scoring options, "acceptable" (50%) and "weak" (25%) that had no application to this criterion. Since there were no clear scoring criteria, bidders who fully complied received an acceptable rating and a 50% score, rather than full credit.

Another example was the requirement that contractors ensure Employee Training Jackets are kept current for all guards. This criterion also should have been scored either full- or no-credit, based on whether the contractor proposed to meet the RFP requirements. However, several bidders that met this requirement only received a 50% score, while two received full credit for including unrelated information in their proposals. In one instance, a proposal was awarded full credit for referencing a specific course of training; in the second case, the bidder indicated that training files would "contain additional information on their employees." We do not believe that either of these are relevant or meaningful with respect to ensuring that employee training jackets are kept current for all guards, and applying these subjective criteria had the effect of reducing the objectivity of the scoring.

Conclusion

Overall, we found the RFP process to be consistent with other proposal processes that have been used throughout the County. OPS obtained input from stakeholders in the RFP development process including various client departments and ISD, and we believe that the resulting minimum mandatory requirements are reasonable. We also found that the process used to evaluate the proposals was generally consistent with the ISD Services Contracting Manual. Specifically, we found that the evaluation criteria were generally relevant, reasonable, and applied in an unbiased and consistent manner to all vendors. The evaluation criteria were also appropriately disclosed to the bidders as required, and vendor concerns/questions appear to have been timely and appropriately addressed by OPS.

Other Allegations

In addition to expressing concerns regarding the RFP process and evaluation methodology, Mr. Schrieken made several specific allegations of misconduct/favoritism against OPS. These allegations and our findings are discussed below.

Allegation 1

OPS retaliated against NAS when they disqualified them for failing to include audited financial statements and did not apply the same standard to others.

Finding

The RFP expressly requires all bidders to submit audited financial statements, and that requirement is cited in three separate sections of the RFP (Part A, Sections 5.1.4 and 12.9.3, and Part C, Section 3.10.1). Although bidders that disagree with a provision of the RFP can file an exception with the Department, no exceptions were filed to protest the audited financial statement requirement. NAS and one other bidder were eliminated during the Phase I review for not meeting this requirement.

The proposal submitted by NAS included a section titled "Audited Financial Statements for 2001, 2002 and 2003", and NAS signed the required declaration (Part C, Section 3.14.2) certifying that their proposal met the minimum requirements of the RFP. In addition, written transcripts from the second bidder's conference (which NAS attended) indicate that OPS specifically confirmed that audited financial statements were required.

Mr. Schrieken claims that contract monitors told him OPS was retaliating against him by not accepting his proposal, and that the Department was "out to get him". However, contract monitors we interviewed denied ever making such statements. Mr. Schrieken further alleged that it is "discriminatory" for the County to require small businesses to provide audited financial statements because it is expensive to hire a Certified Public Accountant to perform the audit. Mr. Schrieken's attorney cited California Government Code § 14387(d)(1) and California Public Contract Code Section § 20101(b) to support their claims of discrimination. However, according to County Counsel, the codes cited are not applicable to County contracts, and the County may include more stringent criteria than is mandated by the State.

Mr. Schrieken also told OCI investigators that NAS was awarded a similar OPS contract in 2001, even though their proposal did not include audited financial statements as required by that RFP. We reviewed the December 2001 RFP and NAS' proposal, and found that NAS did not submit audited financial statements despite certifying that they had done so. Consequently, NAS should not have been awarded a contract in 2001. It appears that OPS staff, who may not have had the technical expertise to differentiate between audited and un-audited financial statements, relied on Mr. Schrieken's certification that they were audited when in fact they were not.

Conclusion

Mr. Schrieken's allegations are not substantiated. We determined that for both the current and prior (2001) solicitations, NAS did not submit audited financial statements, while certifying otherwise. NAS was informed and aware of the audited financial statement requirement, and we do not believe that previous oversights by OPS in the evaluation process warrant suspending this criteria. For the current RFP, OPS appropriately rejected NAS' proposal, and we could not find any evidence that such action was discriminatory or retaliatory.

The Department has indicated that they are considering deleting the requirement for audited financial statements in future RFPs. However, we believe the audited financial statement requirement is reasonable, appropriate, and prudent. Such statements provide assurance that bidders have accurately represented their financial condition, and have the resources necessary to meet their contract obligations.

Allegation 2

OPS inappropriately awarded contracts to Paige Security, where a former employee of the Department allegedly works.

Finding

Mr. Schrieken alleged that a former OPS employee who now works at Paige Security influenced the awarding of a security guard contract. However, a search of the County Wide Timekeeping and Payroll Personnel System (CWTAPPS) did not locate any current or former OPS employees with the same or a similar name. OPS also conducted a search of their personnel records with the same result.

We noted OPS awarded Paige Security a contract on October 23, 2001, which was terminated in May 2002 after the contractor declared bankruptcy. We could not find any evidence that Paige Security currently has a business relationship with OPS or any other County department.

Conclusion

The allegation is not substantiated. The former OPS employee cited by Mr. Schrieken as having influenced the award of a security guard contract could not be identified, and the subject company is no longer a County vendor.

Allegation 3

OPS failed to adequately screen International Services, Inc. (International) during the RFP process. As a result, OPS did not know that International was being debarred by the federal government, and intended to award them security guard contracts.

Finding

Staff from the federal Office of Acquisitions could not locate any evidence of past or current debarment proceedings against International. We also attempted to contact the General Services Administration on three separate occasions, but they did not respond to our inquiries. However, a search of the Internet found documents showing that in 2002, New York State investigated International for employing 201 unregistered guards who had not completed required background checks. The guards were stationed at federal and municipal government facilities, including the Statue of Liberty. A subsequent audit also disclosed various contract compliance discrepancies related to training, drug testing, and failure to appropriately register guard credentials with the State. New York subsequently revoked International's license and initiated enforcement action. International failed to disclose this information to OPS in their proposal.

Conclusion

While we could not substantiate that International was subject to debarment by the federal government or any municipality, we did find evidence of performance and contract compliance issues that resulted in the revocation of their license in the State of New York. International did not include this work history in their proposal submitted to OPS. The Department should carefully review these findings and determine whether International's failure to disclose their prior work relationship with the State of New York is grounds for eliminating them from the Phase II evaluation process. At a minimum, the Department should ensure that such performance issues have been addressed before considering International for a contract under this RFP.

Allegation 4

OPS did not submit bidder financial statements to the A-C for analysis.

Finding

We verified that staff from the A-C's Audit Division performed a financial statement analysis for all eight bidders, and a memo detailing the results of that review was submitted to OPS on January 13, 2005. Audit Division staff concluded that the financial information provided by NAS and American Guard Services could not be relied upon because their respective financial statements were not audited.

Conclusion

The allegation is not substantiated. The A-C reviewed financial statements submitted by all eight bidders, and the results were submitted to OPS.

Allegation 5

OPS unfairly cited and fined NAS for minor compliance violations but ignored similar infractions by other contractors.

Finding

To determine whether the citations and fines assessed NAS for compliance violations were consistent with those levied on other security guard contractors, we examined a sample of Contract Monitor Inspection Sheets for all private security guard contracts for the period of July 1, through December 31, 2003. This timeframe corresponded with a period in which a relatively high dollar volume of fines was assessed. We also analyzed invoices from three contractors and compared the dollar amounts OPS assessed for invoice discrepancies and performance exceptions during the same six-month period.

Specifically, we reviewed 364 Contract Monitor Inspection Sheets for eight security guard contractors, and found 24 citations for contract compliance discrepancies. NAS received 10 of these citations, for discrepancies including guards carrying the wrong type of ammunition, and not having badges, name plates or required safety equipment, etc. We noted that OPS appropriately cited NAS guards for specific violations of contract requirements, and that the guards who were cited signed the Inspection Sheets acknowledging the violations.

We then reviewed corresponding invoices for three of the eight contractors to determine whether OPS disproportionately fined NAS for contract compliance discrepancies or invoicing errors (i.e., overbilling, improper overtime calculations, etc.). Investigators found that fines against NAS and another security guard contractor equaled approximately one-percent of their respective total billings, while a third contractor was fined more than three percent for the same period.

We also determined that a majority of the fines levied against NAS were for invoice discrepancies (overbilling), rather than contract compliance issues as alleged by Mr. Schrieken. Specifically, of the $2,645 assessed NAS during the period of our review, $1,745 (66%) was attributable to invoice discrepancies and $900 (34%) was for contract compliance issues. In addition, more than 50% of the amount assessed for contract compliance violations was for unmanned posts, and the balance was for citations such as a guards sleeping at posts, missing equipment, etc. A cursory review of invoices from other time periods indicated a similar pattern and volume of assessments.

Before OPS deducts an assessment from the contractor's invoice, the contractor has five days to approve or dispute the reported discrepancy. We noted that NAS approved all the discrepancies included in our sample.

Conclusion

The allegation is not substantiated. OPS appropriately cited NAS for invoice and performance discrepancies, and fines levied against NAS were consistent with or lower than those assessed other contractors. We also noted that a majority of NAS' fines were for overbilling, not the compliance issues cited by Mr. Schrieken.